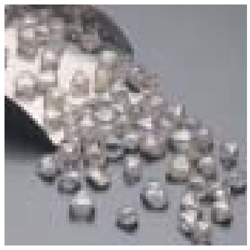
FIRESTONE DIAMONDS

Annual Report 2003





contents

Location of Firestone Projects

Firestone Diamonds plc is a UK-based international diamond mining and exploration company with operations in the Namaqualand region of South Africa and in Botswana. Namaqualand, which is located on the west coast of South Africa, has been one of the world's largest alluvial diamond producing regions for the past 60 years, with total production to date estimated to be worth more than $3 billion. Botswana is the world's largest producer of diamonds by value, with annual production of over 20 million carats worth over $1.6 billion.

Firestone's strategy has been to build a portfolio comprising advanced development and production projects to provide sustainable cash flow to fund ongoing exploration programmes and to provide an early return on investment, together with large scale exploration projects which have the potential to yield significant reserves of gem quality diamonds.

Firestone's projects in Namaqualand include the Avontuur Mine and Oena Mine, both of which produce high quality alluvial diamonds and a growing portfolio of advanced and early stage exploration projects, of which the Groen River Valley project is the most important. Firestone is developing a new mine at Bonte Koe through its black empowerment joint venture, African Star Minerals, and production is expected to commence in 2004. Firestone also has extensive interests in Botswana, where it is exploring for kimberlite at Mopipi, 50 kilometres west of De Beers' major Orapa Mine.

Firestone is well funded and has a highly qualified management team with extensive experience in the financing and development of diamond and other natural resource projects. Firestone is quoted on the Alternative Investment Market (AIM) of the London Stock Exchange and trades under the symbol FDI.L.

Chairman's Statement

Dear Shareholder,

The past year saw continued progress in the development of Firestone's mining operations and exploration projects. The primary focus at our mining operations was on the construction and commissioning of the new dense medium separation (DMS) plant at the Avontuur Mine, which was completed by the end of the year. Group production for the year increased 31% to £1.2 million, primarily as a result of increased capacity and production at the Oena Mine. Exploration activity during the year was mainly concentrated on the Groen River Valley and Mopipi projects.

The most significant strategic development during the year was the formation of a black economic empowerment joint venture, African Star Minerals, in partnership with a prominent South African black empowerment group. After the year-end we announced our intention to acquire and re-establish mining operations at the Bonte Koe Mine through African Star Minerals. Bonte Koe is expected to make a substantial impact on the Company's revenues and profitability once it reaches full production.

Planned mining area, Bonte Koe

Firestone Projects in Namaqualand

Growth in shareholder value for smaller mining companies such as Firestone is primarily driven by exploration success. As Firestone has a significant competitive advantage through its access to data on more than forty years of diamond exploration in Namaqualand and elsewhere, we intend to exploit this data more aggressively to identify new, large scale exploration projects that have the potential to yield significant reserves of gem quality diamonds. We intend to increase the allocation of the Company's resources and expertise to our exploration activities and, as a result, will rely more on joint venture partners and contractors at our mining operations. We have been very active in pursuing new projects for both Firestone and African Star Minerals and expect to be able to announce developments in this regard later in 2004.

Black Economic Empowerment

One of the South African government's key policy objectives is to increase the level of participation by previously disadvantaged South Africans in the South African economy. The government has introduced legislation to support black economic empowerment (BEE) in a number of industries. During the year it published the Mining Charter, which sets out specific BEE objectives for the South African mining industry.

The publication of the Mining Charter has initiated a process of significant change in the South African mining industry, with many established South African mining companies undertaking major corporate restructurings, and many assets that would otherwise have remained undeveloped becoming available. This process has created many opportunities for smaller companies such as Firestone. Firestone's BEE strategy is to fully engage in the black empowerment process, beyond the minimum requirements specified in the Mining Charter, in order to pursue these opportunities.

During the year the Company formed a new joint venture company, African Star Minerals, in partnership with African Star Investments, a prominent South African black empowerment group. Firestone holds a 75% interest in African Star Minerals, with African Star Investments holding a 25% interest and an option to purchase an additional 24% at market value. African Star Minerals will focus primarily on alluvial diamond projects in the Namaqualand region of South Africa, where Firestone's current mining operations are located, and will seek to secure new projects that can take advantage of the Company's existing infrastructure in Namaqualand.

After the year-end, the Company announced that it had agreed to acquire the Bonte Koe Mine in Namaqualand, and that it intends to re-establish mining operations at Bonte Koe through African Star Minerals. We are at an advanced stage in evaluating a number of other mining and exploration projects for African Star Minerals, and expect to announce specific details in this regard later in the year.

Mining

Bonte Koe Mine, Namaqualand, South Africa

The Company spent a significant amount of time during the year evaluating a new mining opportunity at the Bonte Koe Mine on the Buffels River in Namaqualand. The Buffels River has been a significant diamond producing area for the past 40 years, with mining operations by De Beers, Trans Hex and others producing an estimated total of over 3 million carats, with a current value of over $750 million. Following a comprehensive review of the property, the Company entered into an agreement to acquire the Bonte Koe Mine. The Company intends to re-establish mining operations at Bonte Koe through African Star Minerals.

Previous operations at Bonte Koe have recovered approximately 180,000 carats from diamondiferous proto Buffels River gravels. It is estimated that approximately 1.5 million tonnes of proto gravels remain at Bonte Koe with an average grade of approximately 10 carats per hundred tonnes, giving a resource of approximately 158,000 carats. Diamonds from Bonte Koe average approximately 0.4 carats per stone and have an estimated value of approximately $200 per carat, giving a gross value to the resource of $31 million.

Mine camp, Bonte Koe

Activity at Bonte Koe since the end of the year has been focused primarily on the completion of the development and operating plans for the mine. Ddraig Mineral Developments, a UK-based independent geological and mining consultancy, was retained to carry out a review of Firestone's plans, including treatment plant design, metallurgical specifications, mining methods, and mining, exploration and environmental management plans. Following the recent completion of this review, these plans have been finalised, and a supplier has been chosen for the construction of a 100 tonnes per hour DMS gravel treatment plant at Bonte Koe.

A detailed environmental management programme report covering rehabilitation of both historical and planned mining operations has been completed and submitted to the Department of Minerals & Energy for approval. Planning for the refurbishment of accommodation, workshop and office facilities and the re-establishment of power and water supply is also at an advanced stage, and it is expected that mining operations will commence at Bonte Koe in the first half of 2004.

The Company plans to mine the proto gravels at Bonte Koe over a four year period, during which time drilling and sampling of the substantial resource of meso gravels on the property will be carried out to identify additional possible mineable reserves.

Avontuur Mine, Namaqualand, South Africa

Bedrock cleaning team, Avontuur

The primary focus of operations at Avontuur during the first half of the year was on the completion of work on the new DMS plant. The first diamonds were recovered from the DMS in January. However, due to unexpectedly high levels of clay that were encountered in some of the gravels mined during the year, it was decided to introduce a scrubbing circuit to the feed section of the DMS to break up any clay or conglomerate in the gravels and ensure proper liberation and recovery of diamonds. This work was completed by June, resulting in significant improvements in processing of clay material. The DMS is now fully operational, and production levels have increased substantially as a result.

Production at Avontuur during the year was limited, as expected, by the work being carried out on the DMS plant. Production for the second half of the year was unchanged from the first half, with total production for the year of 2,038 carats. Diamonds produced continued to be approximately 85% gem quality, with an average size of 0.23 carats per stone. Average prices for gem quality production increased to $110 per carat by the end of the year, compared to $108 last year, and have since risen to $126 per carat as the rough diamond market has continued to strengthen. Grades from mining areas ranged from 4 to 23 carats/100 tonnes.

DMS plant, Avontuur

Exploration activity continued during the year and was focused on drilling of targets that had been identified by data from a high resolution airborne electromagnetic survey that was acquired last year. Interpretation of this data identified 6 new exploration targets. A total of 3,747 metres of percussion drilling was carried out over 281 holes on these targets. This drilling has identified a number of promising gravel deposits with thick, well developed gravel horizons. Bulk sampling of the first of these targets will be carried out in the coming year. Exploration is also planned for the area adjoining Avontuur to the east, for which a new prospecting permit was recently granted.

Diamonds from Avontuur

Oena Mine, Namaqualand, South Africa

Continued progress was made at the Oena Mine during the year. Earthmoving and gravel processing capacity were significantly increased last year, primarily through the introduction of a mining contractor, Ruslyn Mining & Plant Hire, on a revenue-sharing basis, and also from an expansion of Firestone's own capacity. The impact of this capacity increase was seen during the year, with production rising to 1,989 carats, a 116% increase compared to last year. Demand for Oena production remained strong during the year, with the average value of production sold dropping slightly from $855 to $852 per carat, reflecting the lower average stone size produced. A number of special diamonds were recovered during the year, including stones of 63.23, 47.02 and 15.28 carats that sold for $2,000, $2,300 and $4,169 per carat, respectively.

Sandberg excavation, Oena

Meso gravel mining operations were carried out at the Oena terrace by Ruslyn Mining and Firestone. As initial mining operations at the Sandberg terrace last year had encountered problems with water-saturated and high clay content gravel, it was decided to relocate the mobile gravel treatment plant and field screening unit from Sandberg to the Blokwerf terrace. This work was completed and the treatment plant and screening unit were commissioned at Blokwerf at the beginning of 2003. Overall grades from mining areas continued in line with last year, and ranged from 0.08 to 1.40 carats/100 tonnes. Diamonds produced averaged 1.44 carats per stone.

Towards the end of the year Ruslyn Mining's operations at Oena were suspended following a dispute over their failure to meet a number of commitments under the terms of their contract at Oena. Although a number of settlement discussions have been held, the dispute has not yet been resolved, and the Company is in the process of identifying another contractor to replace Ruslyn should the dispute not be resolved to the Company's satisfaction.

Diamonds from Oena

Exploration

Groen River Valley, Namaqualand, South Africa

The Groen River Valley project is the Company's most promising exploration project in South Africa, primarily due to the high quality and large size of diamonds that have been mined in the area, which are similar in quality to those from the Orange River.

The Company's recent exploration activities have been primarily focused on the Groen River Valley. A significant amount of work was undertaken on ground mapping and on aerial photo and satellite analysis. This work was primarily focused on the new extensions to the Groen River palaeo channels that were identified last year.

A major percussion drilling programme was planned for a number of significant targets that were identified during the year by ground mapping and aerial photo and satellite analysis.

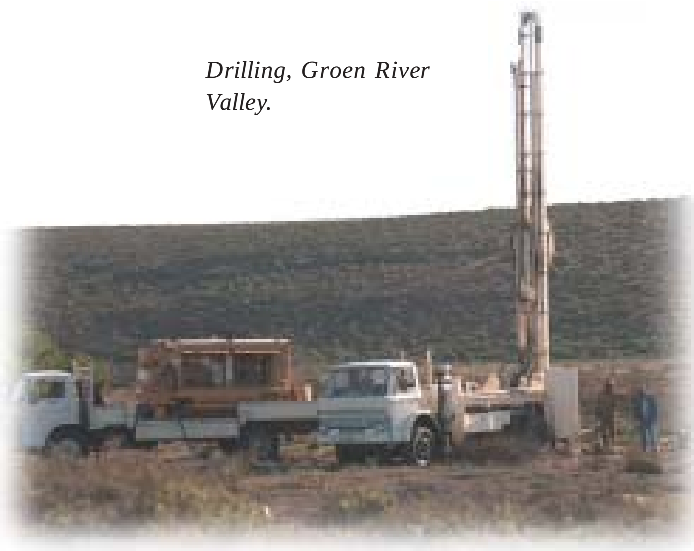
Test excavation, Groen River Valley.

This drilling programme commenced after the year-end, and has recently been completed, with 98 holes drilled over a total of 2,203 metres. Interpretation of drilling logs and examination of samples is currently under way, and results will be announced early next year. The most promising targets identified by this drilling programme will be selected for bulk sampling in 2004.

Applications were lodged last year for prospecting permits for new areas in the Groen River Valley. It has taken longer than originally anticipated for these permits to be granted, but it is now expected that they will be granted early next year, following which drilling and sampling will be carried out on targets that have already been identified by aerial photo and satellite analysis.

We remain confident that the Groen River Valley has the potential to become an important new alluvial diamond-producing region, particularly given the fact that the supply shortfall in the rough diamond market is at its greatest at the large, high quality end of the market, where prices have risen strongly this year. Based on the substantial land position that Firestone holds in the area, this project has the potential to make a significant contribution to the Company's future growth.

Drilling, Groen River Valley.



Groen River, approaching the coast.

Mopipi, Botswana

Exploration work at the Mopipi project during the first half of the year was focused on the Mopipi Dam area, where previous kimberlitic indicator mineral sampling had indicated the presence of diamondiferous kimberlite. More than 100 geophysical targets were selected for sampling and follow up work, following which percussion drilling was carried out on eighteen of these targets. All of the holes were terminated in Karoo sandstone.

Although no kimberlite was encountered in these drill holes, analysis of material recovered resulted in the unexpected recovery of a significant number of kimberlitic pyrope and other kimberlitic indicator minerals from the Karoo. This significant discovery proved that the kimberlitic indicator minerals at Mopipi cannot have been derived from the nearby Orapa kimberlite field, as the Karoo sandstone predates the intrusion of the Orapa field, and also proves that there is another kimberlite

Sample collection, Mopipi

source in the region in addition to Orapa. However, this kimberlite source is older and will lie at a greater depth than was previously thought likely. Subsequent to this discovery, work during the rest of the year was focused on the reinterpretation of geophysical, satellite and sampling data to identify new drilling targets deeper in the Karoo sandstone.

During the year a significant new chrome diopside anomaly was identified in a gravel-filled palaeo-channel in Mopipi South. A number of interesting geophysical and satellite features are located upstream along this drainage and a follow-up sampling on these anomalies will be carried out next year.

Most of Firestone's work to date has been focused around the Mopipi Dam area, which comprises less than 5% of the 3,000 square kilometers covered by the Company's prospecting licences. Given this fact, the increasing opportunities available to Firestone in South Africa, and in the interests of accelerating the pace of exploration across the entire Mopipi prospecting license area, the Company decided during the year to consider the introduction of a joint venture partner to the project. Discussions have been held with a number of potential joint venture partners, and although a number of offers have been received, the terms of these offers are not considered satisfactory, and discussions are still ongoing. We remain confident that a joint venture agreement will be concluded during the coming year. In the meantime we will continue limited field work in Mopipi on a targeted basis.

New Exploration Projects

Last year the Company lodged prospecting permit applications over a new palaeo river system in Namaqualand. This system has been proven to be diamondiferous, and initial satellite and aerial photo interpretation has identified palaeo channels over a length of more than 10 kilometres. Additional satellite and aerial photo interpretation carried out during the year has identified a significant new target more than 8 kilometres in length. We are still awaiting the issue of these permits, which is now expected to take place early next year, following which drilling and bulk sampling will be carried out on the targets that have been identified.

Indicator minerals, Mopipi

Financial

Group production for the year increased 31% to £1.2 million, primarily as a result of increased capacity and production at the Oena Mine. Operating profit for the year decreased slightly, primarily due to the strengthening of the Rand against the US dollar and costs associated with the construction of the DMS plant at Avontuur.

In August 2003 the Company completed a share placing with institutional and other investors to raise approximately £1.88 million net of expenses. The primary purpose of the fund raising was to finance the acquisition of, and the redevelopment of mining operations at, the Bonte Koe Mine. The Company currently has cash reserves and diamond stocks of approximately £1.2 million.

During the year the South African government published the first draft of the Mineral and Petroleum Royalty Bill, which will accompany the Mineral and Petroleum Development Bill that was enacted last year. The draft Royalty Bill provides for royalties on diamonds to increase from 5% to 8%. Significant negative feedback on the draft Bill was received from both South African and international mining companies, following which the government announced that it would carry out extensive consultations with industry before publishing a revised draft. These consultations may result in the proposed royalty on diamonds being reduced. Even if the Bill is not changed, the impact on the Company will not be significant, as the new royalties would not impact Oena or Avontuur until their respective mining permits are next due for renewal, which will not be until 2008.

25.14 carat diamond, Oena

63.3 carat diamond, Oena

The Diamond Market

Despite difficult global economic conditions the rough diamond market had a very good year in 2002, with De Beers' sales increasing 16% to \$5.15 billion. The strength in the market continued into 2003, with De Beers' sales for the first half of the year increasing 2.75% to \$2.29 billion.

Rough diamond prices rose by about 15% in 2003, with De Beers increasing prices three times since the beginning of the year. These increases have been driven by the growing shortfall in rough diamond supply across all segments of the market, which is expected to continue for the next three to five years. With De Beers' stocks now at minimum working levels, and the US economy, which accounts for

Prospecting trench, Bonte Koe

50% of global retail diamond sales, growing strongly, the outlook for diamond prices continues to be positive.

Outlook

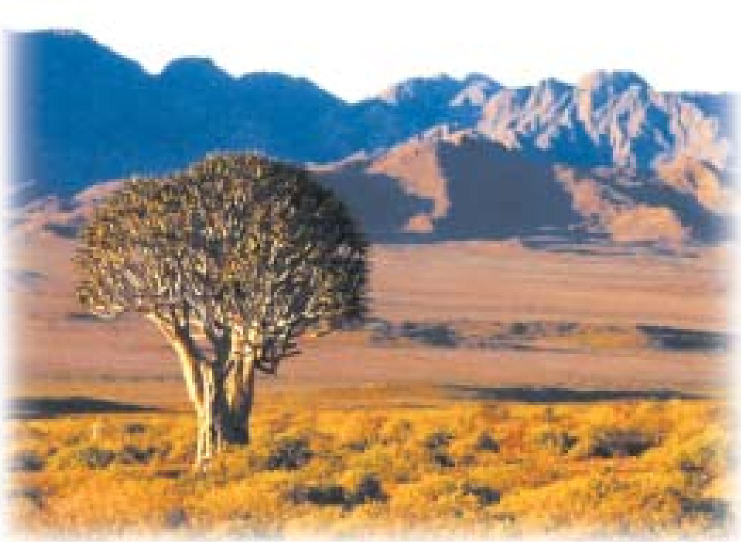
The main priority for the Company in the current financial year is to bring the Bonte Koe mine into production. Bonte Koe is expected to make a significant contribution to overall group turnover when it comes into production, and is expected to become the Company's most profitable operation. Production at the Avontuur Mine is expected to continue at a substantially higher level than last year, although the dispute with Ruslyn Mining will have an impact on production at the Oena Mine for the current year.

The pace of exploration activity in Namaqualand will continue to increase this year, with the primary focus being on the Groen River Valley project. The Company is awaiting permits for a number of new exploration projects, and expects to start drilling once the permits are issued, which is expected to be later in the year. The Company has also been very active in pursuing new projects for both Firestone and African Star Minerals and expects to be able to announce developments in this regard later in the year.

With the many opportunities that are available to Firestone, and with the strength in the rough diamond market expected to continue for the next few years, we remain confident about the Company's long term prospects. Our main concern, as it has been for all mining companies and exporters in South Africa, is the continued strength of the Rand, which has been one of the top performing currencies in the world over the past two years, having appreciated by 38% against the US dollar in 2002, and by 36% so far this year.

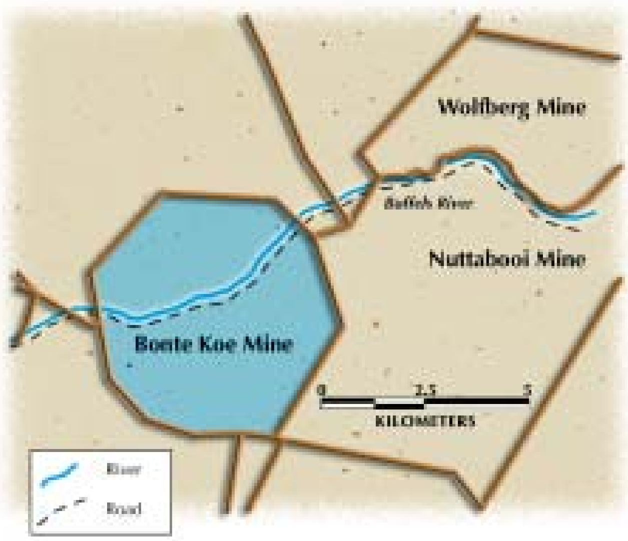
Finally, I would like to record the Board's appreciation of the continued dedication and commitment of our senior management and staff over the past year, all of whom have contributed to the Company's continued growth and development.

James F. Kenny
Chairman
4 December 2003



Project Overview

Bonte Koe Mine, Namaqualand, South Africa



Location of Bonte Koe Mine

The Bonte Koe mine covers an area of approximately 6,200 acres along the Buffels River in the Namaqualand region of the Northern Cape Province of South Africa, and lies immediately downstream of De Beers' Nuttabooi mine. The Buffels River has been a significant diamond producing area for the past 40 years. Mining operations in the area have produced an estimated total of over 3 million carats, with an estimated current value of over $750 million. The Buffels River area produces diamonds with an average size of approximately 0.4 carats per stone and an estimated value of $200 per carat.

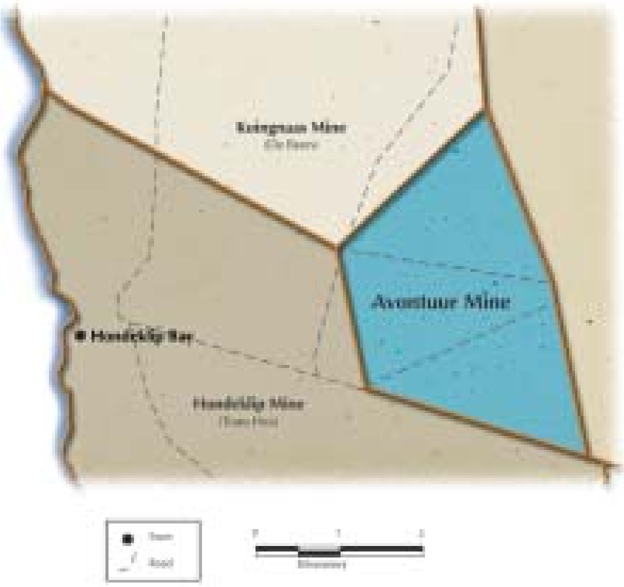
Previous operations at Bonte Koe have produced approximately 180,000 carats from proto gravel deposits, at an average grade of approximately 44 carats per hundred tonnes.

Sorting Avontuur production (L to R) D.Wessels, Operations Manager; H.Jenner-Clarke, Exploration Director

Avontuur Mine, Namaqualand, South Africa

The Avontuur Mine covers approximately 2,600 acres and is located near the coastal town of Hondeklip Bay in Namaqualand. Hondeklip Bay is a well-established alluvial diamond producing area and hosts De Beers' Koingnaas Mine which has been producing for approximately 20 years. The Hondeklip Bay area produces diamonds with an average size of approximately 0.2 carats per stone and a value of between $90-$100 per carat, from buried onshore marine terraces. The Avontuur Mine produces diamonds from terraces ranging from 30 to 60 metres above sea level.

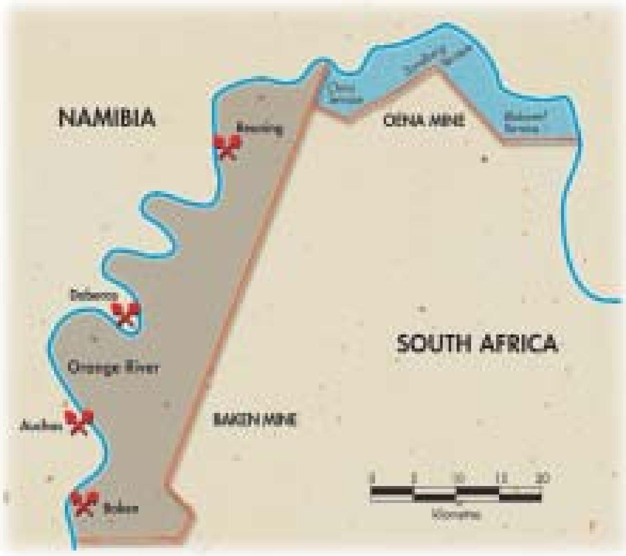
Total historical production in the Hondeklip Bay area is estimated at over 1.5 million carats. Firestone owns a 100% interest in the Avontuur Mine.



Location of Avontuur Mine

Oena Mine, Namaqualand, South Africa

The Oena Mine is located on the lower Orange River, in a well established diamond producing area which produces diamonds comparable to the best in the world, typically selling at prices between $700-$900 per carat. Oena covers 22,000 acres, and extends in a 4.8 kilometre wide strip along 15 kilometres of the Orange



Location of Oena Mine

River. Oena is located upstream of the Auchas Mine, operated by De Beers, and the Baken Mine, operated by Trans Hex, South Africa's second largest diamond producer.

Total historical production at Oena is over 30,000 carats, with an average stone size of approximately 2 carats, the largest stone recovered being 70 carats. Firestone owns an 87.5% interest in the Oena Mine.

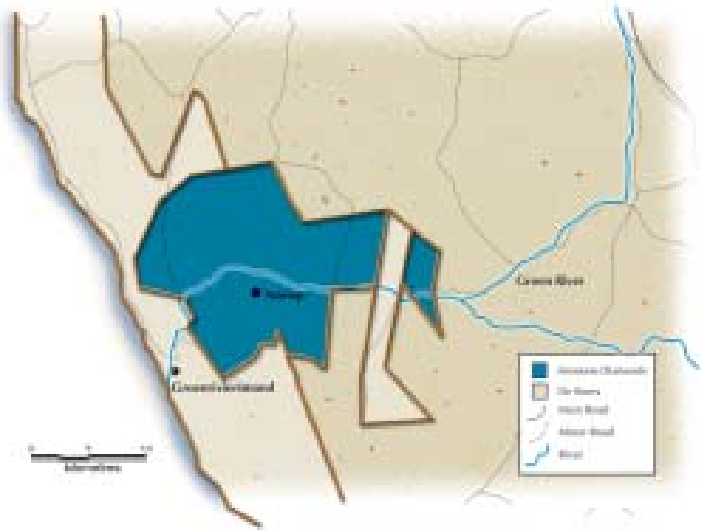
Groen River Valley, Namaqualand, South Africa

Groen River Valley diamonds

The Groen River Valley project covers an area of approximately 60,000 acres of the lower reaches of the Groen River in Namaqualand. A considerable amount of prospecting has been carried out by Firestone in this region in recent years, resulting in the identification of the palaeo river channels which were responsible for transporting the diamonds of large size and exceptional quality that have been mined near the mouth of the Groen River by De Beers and other operators. Diamonds from the Groen River Valley are considered to be similar in quality to those from the Orange River, with an estimated value of up to $1,000 per carat. The Groen River has the potential to become an important new alluvial diamond producing region.

The palaeo channels identified by recent exploration lie in valleys up to 500 metres wide, with the active part of the channels, where diamond grades are typically highest, being between 30 and 50 metres wide. All locations tested by exploration to date have been proven to be diamondiferous. Firestone owns a 100% interest in the Groen River Valley project

Mobile processing plant, Groen River Valley



Location of Groen River Valley Project

Mopipi, Botswana

In addition to being a highly stable country with good infrastructure, Botswana is the world's largest producer of diamonds by value, with annual production of over 20 million carats worth over $1.6 billion, accounting for over 23% of worldwide production. Botswana hosts De Beers' Orapa, Letlhakane and Jwaneng mines and is considered to be the best country in the world to explore for kimberlite – the primary source rock for diamonds. It is likely that further commercial kimberlite discoveries will be made there. Firestone's Mopipi joint venture project is located about 70 kilometres west of De Beers' Orapa Mine.

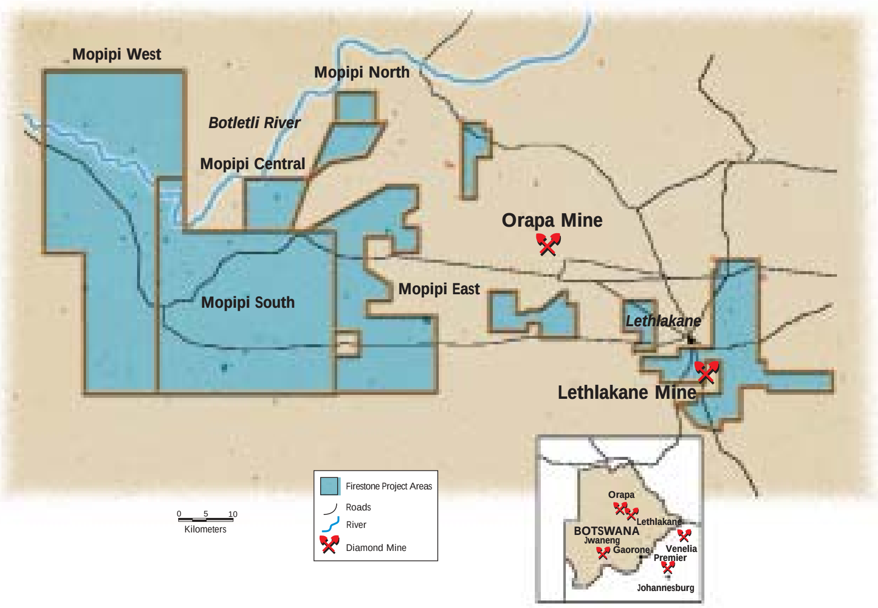
Exploration drilling, Mopipi

The Mopipi project lies in an area where deep-seated north-south structural trends intersect with east-west trending dykes and fractures. Kimberlite intrusions typically exploit such intersections. Firestone has carried out a substantial amount of exploration at Mopipi, including aerial photography and satellite imagery interpretation, acquisition and interpretation of aeromagnetic, electromagnetic and gravity data, and extensive soil sampling. This work has provided very strong evidence of the presence of a diamondiferous kimberlite source in the Mopipi region.

Firestone's current license position in Botswana is as follows:

Project	Area (sq. kms.)	Interest
Mopipi Central	85	Firestone owns 75% interest
Mopipi South & Mopipi West	1,900	Firestone owns 50% interest
Mopipi North	38	Firestone holds option to acquire 100% interest
Mopipi East	936	Firestone owns 100% interest

Firestone Projects in Mopipi Area



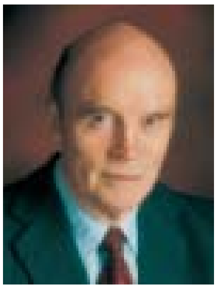
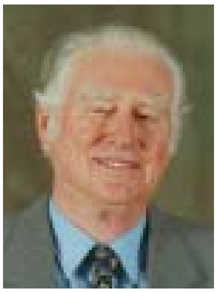
Sample concentration, Mopipi

Breektand, Vanrhynsdorp, South Africa

The Breektand project is located 75 kilometres inland from the mouth of the Groen River, and covers approximately 7,400 acres. Work on the project to date has consisted of geological mapping and aerial photo and satellite imagery interpretation. This has resulted in the identification of a palaeo drainage system on the property that is thought to contain alluvial diamond deposits. As the target gravels outcrop, drilling will not be required. The exploration programme will consist primarily of bulk sampling of the gravels that have been delineated by mapping. Due to the sensitive nature of some of the vegetation in the Breektand area, extensive discussions have been held with the Department of Minerals and Energy in relation to the proposed Environmental Management Programme (EMP). These discussions are still continuing, and it is expected that exploration will commence once the EMP has been approved. Firestone owns a 100% interest in the Breektand project.

Breektand license area

Directors & Advisors


From Top to bottom:

James F. Kenny, Chairman; Hugh Jenner-Clarke, Deputy Chairman; Philip Kenny, Chief Executive


From top to bottom:

Dudley Wessels, Operations Manager; Kovilan Govender, Senior Geologist

Directors

James Flannan Kenny, B.A., LL.B., M. Sc., Executive Chairman
Hugh Clifford David Jenner-Clarke, B. Sc., F.G.S., Deputy Chairman and Director of Exploration
Philip Kenny, B.E., M.B.A., Chief Executive
James Kenny Jnr., B. Comm., M.B.S., Executive Director
Michael James Hampton, B.A., Non-executive Director
William Douglas Baxter, M.A., M.A.I., Non-executive Director

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Company Secretary

Pinsent Curtis Company Services Limited

Director's Report - for the year ended 30 June 2003

The directors present their report together with the audited financial statements for the year ended 30 June 2003.

Results and Dividends

The group profit for the year after taxation and minority interests amounted to £65,207.

The directors do not recommend the payment of a dividend.

Principal Activity

The principal activity of the group was diamond exploration and mining. The principal activity of the company was that of a holding company.

Review of Business and Future Developments

A detailed review of the business and future developments is included in the Chairman's Statement on pages 4 to 11.

Share Capital

In August 2003, the company completed the placing of a further 6,065,000 new ordinary shares at a price of 33 pence per share, raising approximately £2,000,000 before the deduction of related expenses.

At 4 December 2003, the company has been notified of the following interests in the issued ordinary share capital:

	Shares	**%**
Elfin Trust Company Limited	7,200,000	17.9%
Aurora International Investments Limited	7,200,000	17.9%

Elfin Trust Company Limited holds 7,200,000 ordinary shares as trustee for a discretionary trust, the beneficiaries of which include members of the Jenner-Clarke family. Through its holding of shares in Aurora International Investments Limited, Elfin Trust Company Limited also controls 7,200,000 ordinary shares as trustee for a discretionary trust, the beneficiaries of which include members of the Kenny family.

Payment Policy

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with.

At 30 June 2003, the group had an average of 54 days (2002: 33 days) purchases outstanding in trade creditors.

Directors

The directors who served during the period, their beneficial interests and those of their families in the ordinary share capital of the company, were as follows:

	At 30 June 2003		**At 30 June 2002**	
	Ordinary Shares	**Share Options**	**Ordinary Shares**	**Share Options**
J F Kenny	**505,765**	**1,175,000**	505,765	1,175,000
H C D Jenner-Clarke	**568,057**	**1,355,000**	586,057	1,355,000
P Kenny *	**538,806**	**1,355,000**	538,806	1,355,000
M J Hampton	**106,875**	**110,000**	106,875	110,000
J Kenny Jnr *	**157,023**	**550,000**	157,023	550,000
W D Baxter	**7,000**	-	4,000	-

* Potential beneficiaries of a discretionary trust, controlling 7,200,000 ordinary shares. Further details of share options are shown in note 19 to the financial statements.

Going Concern

Following a review of the company's financial position, the directors have concluded that sufficient financial resources will be available to meet the company's current and foreseeable working capital requirements. On this basis, they consider it appropriate to prepare the financial statements on a going concern basis.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements the directors are required to;

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the Directors’ Report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

Corporate Governance

The directors intend that the company will comply with the principles set out in The Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council so far as is considered appropriate, having regard to the size and nature of activities of the group.

Auditors

PKF have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

P Kenny
Director
4 December 2003

Auditors' Report

We have audited the financial statements of Firestone Diamonds plc for the year ended 30 June 2003 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities contained in the Directors' Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's and the company's affairs as at 30 June 2003 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London	PKF
4 December 2003	Registered Auditors

Consolidated Profit and Loss Account - for the year ended 30 June 2003

	Notes	2003 £	2002 £
Production		1,157,980	885,964
Turnover	2	1,157,289	842,334
Change in stocks of finished goods and in work in progress		691	43,630
Raw materials and consumables		(133,019)	(26,169)
Staff costs		(104,069)	(90,542)
Depreciation and amortisation		(58,652)	(62,882)
Other operating charges		(727,183)	(558,924)
Operating profit		135,057	147,447
Interest receivable and similar income	3	30,071	46,630
Interest payable and similar charges	4	(2,261)	(945)
Profit on ordinary activities before taxation	5	162,867	193,132
Tax on profit on ordinary activities	8	(71,520)	(49,314)
Profit on ordinary activities after taxation		91,347	143,818
Minority interests		(26,140)	(19,271)
Retained profit for the year	20	65,207	124,547
Earnings per share			
Basic earnings per share	9	0.2p	0.4p
Diluted earnings per share	9	0.2p	0.4p

Turnover is wholly derived from continuing activities.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 30 June 2003

	2003 £	2002 £
Profit for the financial year	65,207	124,547
Currency translation differences	168,171	(161,151)
Total recognised gains and losses for the year	233,378	(36,604)

Consolidated Balance Sheet - 30 June 2003

	Notes	2003 £	2003 £	2002 £	2002 £
Fixed assets					
Intangible assets	10		9,028,912		7,531,142
Tangible assets	11		1,844,402		1,180,034
Investments	12		378,275		285,934
			11,251,589		8,997,110
Current assets					
Stocks	13	128,754		90,637	
Debtors	14	250,736		275,376	
Cash at bank and in hand		273,636		1,472,463	
		653,126		1,838,476	
Creditors					
Amounts falling due within one year	15	(618,283)		(335,139)	
Net current assets			34,843		1,503,337
Total assets less current liabilities			11,286,432		10,500,447
Creditors					
Amounts falling due after one year	15		(193,638)		(4,110)
Provisions for liabilities and charges					
Other provisions	16	(564,852)		(364,037)	
Deferred taxation	17	(403,574)		(267,450)	
			(968,426)		(631,487)
Net assets			10,124,368		9,864,850
Capital and reserves					
Called up share capital	19		6,840,094		6,840,094
Share premium account	20		3,648,123		3,648,123
Other reserves	20		(1,076,399)		(1,076,399)
Profit and loss account	20		708,885		475,507
Shareholders' Funds	21		10,120,703		9,887,325
Minority interests			3,665		(22,475)
			10,124,368		9,864,850

Approved by the Board on 4 December 2003

P Kenny
Director

Consolidated Cash Flow Statements - for the year ended 30 June 2003

	Notes	2003 £	2003 £	2002 £	2002 £
Net cash inflow from operating activities	22		576,399		186,569
Returns on investments and servicing of finance					
Interest received		30,071		46,630	
Interest element of finance lease payments		(2,261)		(945)	
Net cash inflow from returns on investments and servicing of finance			27,810		45,685
Capital expenditure and financial investment					
Payments to acquire intangible fixed assets		(1,624,597)		(1,074,706)	
Payments to acquire tangible fixed assets		(62,653)		(162,663)	
Receipts from sales of tangible fixed assets		-		2,234	
Payments to acquire investments		(93,013)		(109,548)	
Net cash outflow from capital expenditure and financial investment			(1,780,263)		(1,344,683)
Net cash outflow before use of liquid resources and financing			(1,176,054)		(1,112,429)
Financing					
Issue of ordinary share capital		-		2,202,009	
Finance lease payments		(40,378)		(2,925)	
			(40,378)		2,199,084
(Decrease)/increase in cash	23 & 24		(1,216,432)		1,086,655

Company Balance Sheet - 30 June 2003

		2003		2002	
	Notes	£	£	£	£
Fixed Assets					
Intangible assets	10		234,308		347,951
Tangible assets	11		-		2,702
Investments	12		10,043,570		8,896,801
			10,277,878		9,247,454
Current Assets					
Debtors	14	4,120		4,257	
Cash at bank		231,744		1,316,374	
		235,864		1,320,631	
Creditors					
Amounts falling due within one year	15	(73,085)		(47,834)	
Net Current Assets			162,779		1,272,797
Total Assets			10,440,657		10,520,251
Capital and Reserves					
Called up share capital	19		6,840,094		6,840,094
Share premium account	20		3,648,123		3,648,123
Profit and loss account	20		(47,560)		32,034
Shareholders' Funds			10,440,657		10,520,251

Approved by the Board on 4 December 2003

P Kenny
Director

1 Accounting Policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

As required by FRS 18 the directors regularly review the group's accounting policies and categorisation of items within the financial statements. As a consequence of this review the directors have reviewed the classification of the directors' deferred emoluments and consider that this item should be classified as a provision rather than as an accrual. The prior year figures have been reclassified accordingly (see note 16). This change has no effect on the profit in the current year or that previously reported.

(b) Basis of consolidation

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair value, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the group has gained control of the subsidiary are taken to the profit and loss account.

The consolidated profit and loss account and consolidated balance sheet include the financial statements of the company and its subsidiary undertakings up to 30 June. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date on which control passes. Intra-group sales and profits are eliminated fully on consolidation.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented in respect of the company.

(c) Turnover

Turnover represents the invoiced value of diamonds sold.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired and will be amortised through the profit and loss account over its useful economic life on a depletion percentage basis related to the associated mining property.

Provision is made for any impairment in the carrying value of goodwill to the extent that an asset's recoverable amount is reduced below its carrying value.

(e) Intangible assets

Costs relating to the acquisition, exploration and development of mineral properties are capitalised until such time as an economic reserve is defined and mining commences or the mining property is abandoned.

Intangible assets are amortised on a depletion percentage basis.

(f) Tangible assets

Expenditure on additions and improvements is capitalised as incurred. Fixed assets are included at historical cost.

Tangible fixed assets are depreciated over their estimated useful lives on a straight line basis, except mining property, which is depreciated on the depletion percentage basis. The following annual rates of depreciation have been used:

Mining equipment	- 10%
Plant and equipment	- 10%
Motor vehicles	- 20%

Provision is made for impairments to the extent that the asset's carrying value exceeds its net recoverable amount.

(g) Stocks

Stocks, consisting of cut and uncut diamonds, have been valued at estimated market values prevailing at 30 June 2003, with the amounts so determined reduced by the application of anticipated margins. The use of this method results in a carrying value of stock which approximates to the lower of cost and net realisable value.

(h) Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Differences on exchange arising from the translation of the opening balance sheets of foreign subsidiaries at the period end are taken directly to reserves. Revenues, costs and non-monetary assets are translated at the exchange rates ruling at the transaction date.

Profits and losses arising from currency transactions and on settlement of amounts receivable and payable in foreign currencies are dealt with through the profit and loss account.

(i) Deferred taxation

As required by FRS 19 – "Deferred Tax", full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computations, except for those timing differences in respect of which the standard specifies that deferred tax should not be recognised.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

(j) Liquid resources

In accordance with FRS 1 – "Cash Flow Statements", for cash flow purposes, cash includes net cash in hand and bank deposits payable on demand within one working day, and liquid resources include all of the group's other bank deposits.

(k) Pension costs

The group operates a money purchase pension scheme. Contributions are charged to the profit and loss account in the period to which they relate. Contributions to employees' personal pension schemes are charged to the profit and loss account in the period in which they are incurred.

(l) Finance leases

Assets acquired under finance leases are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the capital balance outstanding.

2 Segment information

Turnover, operating results and net assets are substantially attributable to activities in southern Africa.

3 Interest Receivable and Similar Income

	2003	2002
	£	£
Bank interest receivable	30,071	46,630

4 Interest Payable and Similar Charges

	2003	2002
	£	£
Finance charges	2,261	945

5 Profit on Ordinary Activities Before Taxation

		2003	2002
		£	£
The profit on ordinary activities before taxation is stated after charging/(crediting):			
Depreciation of tangible fixed assets	- owned	25,715	33,975
	- leased	1,053	725
Amortisation of intangible fixed assets		31,884	28,182
(Profit)/loss on disposal of fixed assets		-	(2,197)
Auditors' remuneration	- for audit services payable to group auditors	16,000	20,000
	- for other services payable to group auditors:	7,153	7,036
	- for audit services payable to subsidiary auditors	3,319	8,334

Depreciation of £123,047 (2002: £100,680) has been capitalised as part of deferred development and exploration costs, of which £3,640 (2002: £1,692) relates to leased assets.

6 Staff Costs

	2003 £	2002 £
Staff costs, excluding directors, for the period amounted to:		
Wages and salaries	341,886	307,834
Social security costs	1,936	1,259
Pension costs	31,745	28,307
	375,567	337,400

Included within staff costs is £271,498 (2002: £246,858) which has been capitalised as part of deferred development and exploration costs.

The average number of employees during the period was as follows:

	2003 No.	2002 No.
Operations	98	84
Administration	5	5
	103	89

7 Directors' Emoluments

	2003 £	2002 £
Emoluments in respect of qualifying services	307,092	266,624

The emoluments of the highest paid director were £135,000 (2002: £90,000). Directors' emoluments are comprised of both actual and deferred emoluments (see note 16).

8 Taxation

	2003 £	2002 £
(a) Analysis of charge in year		
Corporation tax	-	-
Deferred tax (overseas) - prior years	-	-
- current year	71,520	49,314
	71,520	49,314

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £	2002 £
Profit on ordinary activities before tax	162,867	193,132
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK at 30% (2002: 30%)	48,860	57,940
Effects of:		
Expenses not deductible for tax purposes	60,464	39,542
Capitalised expenses deductible for tax purposes	(224,926)	(708,665)
Loss brought forward offset in current year	(165,769)	(5,725)
Depreciation in excess of capital allowances	8,827	14,916
Current year tax losses to carry forward	272,544	601,992
Current tax charge for the year	-	-

The tax charge in future years will be affected by the rate at which the group generates profits and utilisation of existing losses.

9 Earnings per Share

Basic earnings per share is based on a profit of £65,207 (2002: £124,547) and a weighted average number of shares in issue of 34,200,469 (2002: 32,832,201).

Diluted earnings per share is based on a profit of £65,207 (2002: £124,547). The weighted average number of shares used to calculate diluted earnings per share incorporates the weighted average number of shares in issue of 34,200,469 (2002: 32,832,201) plus dilutive potential ordinary shares arising from share options of 4,884,679 (2002: 1,453,836) totalling 39,085,148 (2002: 34,286,037).

10 Intangible Fixed Assets

	Goodwill	Deferred exploration and development costs	Exploration data and prospecting rights	Provision for rehabilitation costs	Total
Group	£	£	£	£	£
Cost					
At 1 July 2002	2,102,553	4,893,033	615,013	12,743	7,623,342
Additions	-	535,673	-	-	535,673
Exchange difference	-	1,019,406	-	3,396	1,022,802
At 30 June 2003	2,102,553	6,448,112	615,013	16,139	9,181,817
Amortisation					
At 1 July 2002	-	87,421	-	4,779	92,200
Charge for the year	-	30,460	-	1,424	31,884
Exchange difference	-	27,358	-	1,463	28,821
At 30 June 2003	-	145,239	-	7,666	152,905
Net book value					
At 30 June 2003	2,102,553	6,302,873	615,013	8,473	9,028,912
At 30 June 2002	2,102,553	4,805,612	615,013	7,964	7,531,142

Company

Deferred exploration and development costs	£
At 1 July 2002	347,951
Additions	(113,643)
At 30 June 2003	234,308

11 Tangible Fixed Assets - Group

	Mining property	Mining equipment	Plant and equipment	Motor vehicles	Total
Group	£	£	£	£	£
Cost					
At 1 July 2002	423,851	185,631	860,205	121,948	1,591,635
Additions	-	145,492	305,300	10,772	461,564
Exchange difference	112,962	68,861	269,940	30,336	482,099
At 30 June 2003	536,813	399,984	1,435,445	163,056	2,535,298
Accumulated depreciation					
At 1 July 2002	45,802	86,759	231,250	47,790	411,601
Charge for the year	1,595	19,850	104,646	23,724	149,815
Exchange difference	12,419	25,768	75,576	15,717	129,480
At 30 June 2003	59,816	132,377	411,472	87,231	690,896
Net book value					
At 30 June 2003	476,997	267,607	1,023,973	75,825	1,844,402
At 30 June 2002	378,049	98,872	628,955	74,158	1,180,034

The net book value of the group's tangible assets includes £294,791 (2002: £Nil) of plant and equipment and £15,734 (2002: £5,030) of motor vehicles, in respect of assets held under finance leases, on which depreciation of £4,693 (2002: £2,417) has been charged in the year.

Company	Motor vehicles
	£
Cost	
At 1 July 2002 and 30 June 2003	**13,510**
Depreciation	
At 1 July 2002	**10,808**
Charge for the year	**2,702**
At 30 June 2003	**13,510**
Net book value	
At 30 June 2003	**-**
At 30 June 2002	**2,702**

12 Investments

Group	
	£
Interest in prospecting licences	
At 1 July 2002	**285,934**
Additions	**92,341**
At 30 June 2003	**378,275**

Company

Interest in subsidiary undertakings

	Shares	Shares to be issued	Total
	£	£	£
Cost			
At 1 July 2002	**4,140,644**	**4,756,157**	**8,896,801**
Additions	**-**	**1,146,769**	**1,146,769**
At 30 June 2003	**4,140,644**	**5,902,926**	**10,043,570**

At 1 January 2002, the decision was taken to convert the loan between the company and Firestone Diamonds Limited into equity. These shares were issued on 12 November 2003.

At 30 June 2003, the company held 100% of the ordinary shares of Firestone Diamonds Limited, a company incorporated in the British Virgin Islands, whose principal activity was that of a holding company. Firestone Diamonds Limited had the following subsidiary undertakings:

Name	Holding	Business activities	Country of incorporation
Fortuna Investment Holdings Limited	100%	Dormant	British Virgin Islands
Asam Resources SA (Proprietary) Limited	100%	Diamond exploration and mining	South Africa
Cornerstone (RSA) Limited	100%	Dormant	British Virgin Islands
Surf Zone Diamonds (Proprietary) Limited *	100%	Diamond exploration and mining	South Africa
Oena Mine (Proprietary) Limited	87.5%	Diamond exploration and mining	South Africa
Kuboes Diamante (Proprietary) Limited	87.5%	Diamond exploration and mining	South Africa
African Star Minerals (Proprietary) Limited	75%	Diamond exploration and mining	South Africa

* Held by Cornerstone (RSA) Limited

All material subsidiaries are included in the consolidated financial statements.

In the opinion of the directors, the aggregate value of shares in subsidiary undertakings is not less than the amount at which they are stated in these financial statements.

Distributions by the company's South African subsidiaries are subject to exchange control approval in that country.

13 Stocks

	Group 2003	Company 2003	Group 2002	Company 2002
	£	£	£	£
Cut and uncut diamonds held for sale	128,754	-	90,637	-

14 Debtors

	Group 2003	Company 2003	Group 2002	Company 2002
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	226,124	-	264,211	-
Advances to directors	22,698	-	-	-
Other debtors	1,914	4,120	11,165	4,257
	250,736	4,120	275,376	4,257

15 Creditors

	Group 2003	Company 2003	Group 2002	Company 2002
	£	£	£	£
Amounts falling due within one year:				
Bank overdraft	229	-	69	-
Obligations under finance leases	78,629	-	2,573	-
Trade creditors	295,199	-	117,661	-
Other creditors	148,763	-	127,176	-
Taxation and social security	14,215	-	11,223	-
Accruals and deferred income	81,248	73,085	76,437	47,834
	618,283	73,085	335,139	47,834
Amounts falling due after more than one year:				
Obligations under finance leases	193,638	-	4,110	-
Obligations under finance leases are payable as follows:				
Within one year	78,629	-	2,573	-
Between one and two years	89,625	-	4,110	-
Between two and five years	104,013	-	-	-
	272,267	-	6,683	-

Obligations under finance leases are secured on the underlying assets.

16 Other Provisions

Group

	Rehabilitation costs	Directors' deferred emoluments	Total
	£	£	£
At 1 July 2002 – as previously reported	12,743	-	12,743
Prior year reclassification	-	351,294	351,294
At 1 July 2002 – as restated	12,743	351,294	364,037
Charge for the year	-	124,292	124,292
Transfers	-	73,127	73,127
Exchange difference	3,396	-	3,396
At 30 June 2003	16,139	548,713	564,852

Rehabilitation Costs:

The movement in the year relates solely to foreign currency exchange differences.

Surf Zone Diamonds and Kuboes Diamante have each established an environmental rehabilitation bond of R100,000 (£8,069) in accordance with the requirements of the South African Minerals Act of 1991. These are currently the only required impositions to comply with environmental legislation in respect of the Avontuur Mine and the Oena Mine. Rehabilitation work is planned as an integral part of the mining operations as land disturbed by mining is backfilled, and will include surface profiling of the backfilled areas at a later date. The financial implications of these activities are considered by the directors to be of minimal consequence and inseparable from the normal running costs of the operation.

Accordingly, a total provision for rehabilitation work of R200,000 (£16,139) has been raised as a long term liability. The deferred assets which arise are being amortised over 10 years.

Directors' deferred emoluments:

The directors' entitlement to a portion of their emoluments is dependent upon certain conditions in respect of the company's cash position and profitability being met, and this portion is treated as deferred emoluments. Directors' deferred emoluments were previously classified as an accrual. The directors have reviewed this classification and consider that deferred emoluments should be classified as a provision. Last year's accruals have been adjusted accordingly.

17 Deferred Tax

Group	At 1 July 2002 £	Profit and loss account £	Currency translation movement £	At 30 June 2003 £
Accelerated capital allowances	**(71,085)**	**(4,678)**	**(21,097)**	**(96,860)**
Deferred exploration costs	**1,135,828**	**93,090**	**298,149**	**1,527,067**
Exchange losses	**(38,018)**	**66,478**	**(1,274)**	**27,186**
Tax losses	**(759,275)**	**(83,370)**	**(211,174)**	**(1,053,819)**
	267,450	**71,520**	**64,604**	**403,574**

The directors do not anticipate that accumulated reserves of overseas subsidiaries at 30 June 2003 will be remitted to the UK in the foreseeable future. Accordingly, no provision has been made for deferred tax on these balances.

18 Foreign Currency Risks and Exposures

(a) Objectives, policies and strategies

Currency rate risk

Loans between companies which are members of the Firestone Diamonds group are made in the operating currency of the lending company. In all other respects, the policy for all group companies is that they only trade in their principal operating currency, except in exceptional circumstances from time to time.

The group's revenue derives from the sale of rough and polished diamonds by its South African operating subsidiaries. While proceeds of sales are received in Rand, diamonds are sold in US Dollars, with the Rand proceeds being calculated on the basis of the US Dollar sales price and the US Dollar/Rand exchange rate prevailing on the date of the sale. This means that the group's revenue is not exposed to Rand exchange rate risk, but only to US Dollar exchange rate risk. This is not considered to be material.

The group's expenses in South Africa are incurred in Rand. Any weakening in the Rand would result in a reduction in expenses in Sterling terms, which would be to the group's advantage. There is an equivalent downside risk to the group of strengthening in the Rand, which would increase South African operating expenses in Sterling terms. However, the possibility of any further significant strengthening in the Rand is considered low, and this risk is therefore not considered to be material.

b) Currency analysis of net assets

The group's net assets by currency of operations at 30 June were as follows:

	2003 £	2002 £
Sterling	**9,138,270**	**9,274,514**
Rand	**986,098**	**590,336**
	10,124,368	**9,864,850**

(c) Currency exposures

As at 30 June 2003 the group held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved.

(d) Interest rate risk

Group borrowings are all subject to a floating rate of interest and taken out in Rand only. The group's policy for future borrowings will be to take floating rates unless fixed rate financing is available at particularly attractive rates.

The maturity profile of financial liabilities of the group (company: £Nil) is as follows:-

	2003	2002
	£	£
Within one year	**78,858**	**2,642**
Between one and two years	**89,625**	**4,100**
Between two and five years	**104,013**	**-**
	272,469	**6,752**

The fair value of all financial instruments is approximately equal to book value due to their short term nature, the fact that they bear interest at floating rates based on the local bank rate which at the year end was 16.1% (2002: 15.5%).

The only financial asset held by the group at 30 June 2003 was cash and deposits totalling £273,636 (2002: £1,472,463).

As permitted under FRS13 short term debtors and creditors have not been included in the above analysis.

19 Share Capital

Group and Company	2003		2002	
	Number	£	Number	£
Authorised:				
Ordinary shares of 20p each	**99,750,010**	**19,950,002**	**99,750,010**	**19,950,002**
Redeemable preference shares of £1 each	**49,998**	**49,998**	**49,998**	**49,998**
	99,800,008	**20,000,000**	**99,800,008**	**20,000,000**
Allotted, called up and fully paid:				
Ordinary shares of 20p each	**34,200,469**	**6,840,094**	**34,200,469**	**6,840,094**

On 1 August 2003, the company completed the placing of a further 6,065,000 new ordinary shares at a price of 33 pence per share, raising approximately £2,000,000 before the deduction of related expenses.

Share options

The company operates two unapproved share option schemes for employees and directors. As at 30 June 2003, options granted under the Basic Share Option scheme were outstanding over a total of 2,496,000 ordinary shares as follows:

Date of grant	Exercisable from	Exercisable to	Number of shares	Exercise price
26 January 2000	26 January 2001	26 January 2010	56,000	44.5p
26 January 2000	26 January 2001	26 January 2010	30,000	51.5p
25 February 2000	25 February 2001	25 February 2010	1,360,000	76.5p
30 January 2001	30 January 2002	30 January 2011	25,000	69p
26 February 2001	26 February 2002	26 February 2011	925,000	66p
22 July 2002	22 July 2003	22 July 2012	100,000	66.5p

On 22 July 2002, a total of 100,000 options to purchase ordinary shares in the company were granted under the Basic Option Scheme to certain employees at an exercise price of 66.5p per share.

As at 30 June 2003, options granted under the Performance Related Share Option Scheme were outstanding over a total of 4,260,000 ordinary shares as follows:

Date of grant	Exercisable from	Exercisable to	Number of shares	Exercise price
8 August 2001	8 August 2002	8 August 2011	2,260,000	70p
8 April 2003	8 April 2004	8 April 2013	2,000,000	33p

The company's share price ranged between 79.5p and 30p during the year. The closing share price as at 30 June 2003 was 39.5p per share.

No options were exercised or lapsed during the period.

20 Reserves

Group	Share premium account £	Merger Reserve £	Profit and loss account £
At 1 July 2002	3,648,123	(1,076,399)	475,507
Profit for the year	-	-	65,207
Currency translation differences	-	-	168,171
At 30 June 2003	3,648,123	(1,076,399)	708,885
Company			
At 1 July 2002	3,648,123	-	32,034
Retained profit for the period	-	-	(79,594)
At 30 June 2003	3,648,123	-	(47,560)

21 Reconciliation of Movements in Shareholders' Funds

	Group 2003 £	Group 2002 £
Profit for the year	65,207	124,547
Other gains and losses in the year	168,171	(161,151)
	233,378	(36,604)
New share capital subscribed		
4 September 2001	-	10,000
6 November 2001	-	2,176,209
8 May 2002	-	15,800
	-	2,202,009
Net addition to shareholders' funds	233,378	2,165,405
Opening shareholders' funds	9,887,325	7,721,920
Closing shareholders' funds	10,120,703	9,887,325

22 Net Cash Flow from Operating Activities

	2003 £	2002 £
Operating profit	135,057	147,447
Depreciation of tangible fixed assets	26,768	34,700
Amortisation of intangible fixed assets	31,884	28,182
(Profit)/Loss on disposal of fixed assets	-	(2,197)
Increase in stocks	(16,632)	(43,630)
Decrease/(increase) in debtors	64,165	(274,394)
Increase in creditors	335,157	296,461
Net cash inflow from operating activities	576,399	186,569

23 Analysis of Net Funds

	At 1 July 2002 £	Cash flow £	Non-cash changes	Movement on exchange £	At 30 June 2003 £
Cash	1,472,463	(1,216,307)	-	17,480	273,636
Bank overdraft	(69)	(125)	-	(35)	(229)
	1,472,394	(1,216,432)	-	17,445	273,407
Finance leases	(6,683)	40,378	(273,162)	(32,800)	(272,267)
Total	1,465,711	(1,176,054)	(273,162)	(15,355)	1,140

24 Reconciliation of Net Cash Flow to Movement in Net Funds

	2003	2002
	£	£
(Decrease)/increase in cash in the year	(1,216,432)	1,086,655
Finance leases movement	(232,784)	2,925
Movement on exchange	(15,355)	(23,732)
Movement in net funds in the year	(1,464,571)	1,065,848
Net funds at 1 July 2002	1,465,711	399,863
Net funds at 30 June 2003	1,140	1,465,711

25 Capital Commitments

At 30 June 2003, the group had authorised and contracted for capital commitments of £Nil (2002: £Nil).

26 Related Party Transactions

During the year ended 30 June 2003, Firestone Diamonds plc and its subsidiaries paid £22,416 (2002: £20,586) for consulting fees, staff costs, rent and other operating costs to Delphin (Pty) Limited and Asam Minerals CC, companies in which Mr H Jenner-Clarke, who is a director of Firestone Diamonds plc, has an interest.

During the year ended 30 June 2002 one of the directors, J Kenny Jnr, received advances in relation to fees and expenses. The amount advanced was reduced to £1,757 as at 30 June 2003 (2002: £9,257). During the year J F Kenny received advances in relation to fees and expenses, and the amount outstanding as at 30 June 2003 was £20,941 (2002: £Nil).

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at MWB Business Exchange, 107-111 Fleet St, London EC4A 2AB, on on 13 January, 2004 at 12.30 p.m. for the following purposes:

Ordinary Business

1. To receive the Company's annual accounts for the financial year ended 30 June 2003, the directors' report and the auditors' report on those accounts.
2. To reappoint PKF as auditors to hold office from the conclusion of this Meeting until the conclusion of the next general meeting of the Company at which accounts are laid, and to authorise the directors to fix their remuneration.
3. To reappoint Mr. H. C. D. Jenner-Clarke, retiring by rotation in accordance with the Company's articles of association, as a director of the Company.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 4 will be proposed as an ordinary resolution and resolution 5 will be proposed as a special resolution:

4. That the directors be generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities pursuant to section 80 of the Companies Act 1985 (the "Act") up to an aggregate nominal amount of £7,000,000 for a period expiring (unless previously renewed, varied or revoked by the Company in a general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement.
5. That, subject to the passing of resolution 4 above, the directors be generally authorised pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act), pursuant to the authority conferred by that resolution as if section 89(1) of the Act did not apply to the allotment. This authority will expire 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement and will be limited to:

   (a) allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company and, if in accordance with their rights the directors so determine, holders of other equity securities of any class made in proportion (as nearly as may be) to their existing holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer and, failing which, shall be on the basis that their holdings had been converted into or that they had subscribed for ordinary shares on the basis then applicable) but subject to the directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:

      (i) to deal with equity securities representing fractional entitlements; and

      (ii) to deal with legal problems under the laws of any territory, or the requirements of a regulatory body; and

   (b) allotments of equity securities for cash otherwise than pursuant to sub-paragraph (a) up to an aggregate nominal amount of £3,500,000.

By Order of the Board	**Registered office:**
P Kenny	**1 Park Row**
4 December 2003	**Leeds LS1 5AB**

Notes:

1. A member entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited with the Company's Registrars, Capita Registrars, PO Box 25, Beckenham, Kent BR3 4BR, not less than 48 hours before the time fixed for holding the Meeting. A form of Proxy is included with this notice. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the Register of Members in order to have the right to attend and vote at the Annual General Meeting is 12.30 p.m., 11 January 2004 (being not more than 48 hours prior to the time fixed for the Meeting) or, if the Meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the Register of Members after that time will be disregarded in determining the right of any person to attend or vote at the Meeting.

Form of Proxy

Firestone Diamonds plc

For use at the Annual General Meeting to be convened for 12.30 p.m., 13 January, 2004

I/We ____
(BLOCK CAPITALS)

of ____
being (a) member(s) of the above named Company hereby appoint the Chairman of the Meeting or ________________________
(see Note 1) as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at MWB Business Exchange, 107-111 Fleet St, London EC4A 2AB, on 13 January, 2004 at 12.30 p.m. and at every adjournment thereof and I/we direct my/our proxy to vote as indicated below.

		For	Against
Resolution 1	To receive the Company's annual accounts for the financial year ended 30 June, 2003, the directors' report and the auditors' report on those accounts.		
Resolution 2	To reappoint PKF as auditors and authorise the directors to fix their remuneration.		
Resolution 3	To reappoint H. C. D. Jenner-Clarke as a director.		
Resolution 4	To authorise the directors to allot shares.		
Resolution 5	To disapply statutory pre-emption rights.		

Please indicate with a cross in each appropriate box how you wish your votes to be cast on each resolution. Unless so instructed, your proxy will vote or abstain at his/her discretion, as he/she will on any other matter (including amendments to resolutions) which may properly come before the Meeting. This Form of Proxy will be used only in the event that a poll be directed or demanded.

Signed: ______________________________ Date: ____________________
(See Notes 3 and 5)

Notes:

1. If you wish to appoint some other person as your proxy, please delete the words 'the Chairman of the Meeting or' and insert the full name of your proxy in the space provided.
2. To be valid, the completed Form of Proxy must be lodged with the Company's Registrars not less than 48 hours before the time fixed for holding the Meeting.
3. In the case of a corporation, the Form of Proxy should be under the common seal or under the hand of a duly authorised officer or attorney.
4. A proxy need not be a member of the Company.
5. Any one of two or more joint holders may sign, or vote in person or by proxy, but if more than one of the joint holders is present at the Meeting or represented by proxy, only the holder whose name stands first in the Register of Members shall be entitled to vote.
6. Completion of this Form of Proxy will not prevent a member from attending the Meeting and voting in person should he/she so wish.
7. Any alterations made to this Form of Proxy should be initialled.

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